Pendal Monthly Income Plus Fund

Factsheet

Income & Fixed Interest Strategies

October 2018

Previously known as 'BT Wholesale Monthly Income Plus Fund'

ARSN: 137 707 996

About the Fund

The Pendal Monthly Income Plus Fund (**Fund**) is designed for investors who want the potential for regular income and some long-term capital growth to protect against inflation, diversification across a range of asset classes and are prepared to accept some variability of returns. The Fund invests in a number of income generating strategies across a range of asset classes, including fixed interest, shares and cash. The Fund may also use derivatives.

Investment Return Objective

The Fund aims to provide a return (before fees, costs and taxes) that exceeds the RBA Cash Rate over rolling 3-year periods while allowing for some capital growth to reduce the impact of inflation.

Investment Strategy

The Fund's investment strategy seeks to provide a reliable and consistent income stream that is commensurate with the prevailing cash rate. This will be achieved primarily by exposure to liquid cash and fixed income investments that generally continue to produce income even in times of stress.

The Fund's strategy also seeks to reduce the impact of inflation through exposure to growth assets (namely Australian shares) which will provide investors with the potential for some capital growth.

The Fund invests mainly in fixed and floating credit, government bonds and cash securities as well as Australian shares. The Fund is diversified with the goal of achieving stability and consistency of income over the long term.

Investment Process

Pendal's investment process provides a defensive approach to asset allocation. The process is aimed at preserving capital and minimising the occurrence of adverse income outcomes.

The Fund has a particular focus on managing downside risk and providing a regular, consistent and stable income. It also aims to provide some capital growth in order to reduce the impact of inflation. However, any capital growth that the Fund accumulates over time is secondary to the primary considerations of seeking to provide income and limit downside risk, and specifically limiting capital losses.

Investment Guidelines

Asset class	Range
Cash	0 - 50%
Fixed Interest	20 - 100%
Shares	0 - 30%

Investment Team

Pendal's Income and Fixed Interest team includes thirteen dedicated investment professionals. The team also draws on a wide range of knowledge resources including Pendal's other specialist investment teams: Equity and Multi-Asset. The Fund is managed by Vimal Gor, Head of Income & Fixed Interest who has more than 24 years industry experience.

Performance

(%)	Total Returns		Benchmark
	(post-fee)	(pre-fee)	Return
1 month	-0.78	-0.73	0.13
3 months	-0.41	-0.25	0.38
FYTD	0.01	0.22	0.51
6 months	0.91	1.24	0.76
1 year (pa)	2.31	2.98	1.51
3 years (pa)	3.50	4.18	1.62
5 years (pa)	4.19	4.87	1.92

Benchmark: RBA Cash Rate

Distribution (over the last 12 months)

Month	CPU	Month	CPU
30/11/2017	0.21	31/05/2018	0.50
31/12/2017	0.21	30/06/2018	1.4354
31/01/2018	0.25	31/07/2018	0.20
28/02/2018	0.25	31/08/2018	0.20
31/03/2018	0.30	30/09/2018	0.20
30/04/2018	0.35	31/10/2018	0.20

* Distribution is large due to year end distribution.

Sector Allocation (as at 31 October 2018)

Corporate bonds	60.1%
Mortgage backed	0.2%
Asset backed	0.0%
Australian shares	9.5%
Cash & other	30.2%

Other Information

Fund size (as at 31 Oct 2018)	$478 million
Date of inception	July 2009
Minimum investment	$25,000
Buy-sell spread[1]	0.14% (0.07%/0.07%)
Distribution frequency	Monthly
APIR code	BTA0318AU

[1] The buy-sell spread represents transaction costs incurred whenever you invest or withdraw funds, and may vary from time to time without notice.

Management costs[2]

Issuer fee[3]	0.65% pa

[2] You should refer to the latest Product Disclosure Statement for full details of fees and other costs you may be charged.

[3] This is the fee we charge for overseeing the operations of the Fund and managing the assets of the Fund. The Issuer fee is paid from the assets of the Fund and is reflected in the unit price of your investment.

Risks

An investment in the Fund involves risk, including:

- **Market risk** - The risk associated with factors that can influence the direction and volatility of an overall market, as opposed to security-specific risks. These factors can affect one country or a number of countries.
- **Security specific risk** - The risk associated with an individual asset.
- **Interest rate risk -** The risk associated with adverse changes in asset prices as a result of interest rate movements.
- **Credit risk -** The risk of an issuing entity defaulting on its obligation to pay interest/principal when due.
- **Liquidity risk -** The risk that an asset may not be converted to cash in a timely manner.
- **Valuation risk** – The risk that the value of an investment in a less active or liquid market is lower than what is reflected in the Fund's unit price.
- **Derivative risk –** The risk arising from use of derivatives to manage exposures to investment markets.
- **Counterparty risk –** The risk of another party to a transaction failing to meet its obligations.

Please read the Fund's Product Disclosure Statement (**PDS**) for a detailed explanation of each of these risks.

Market review

Australian bond yields fell during October as a risk-off turn mid-month drove investors to safe-havens. There was no specific driver behind the deterioration in sentiment, however the combination of several factors likely played a part. These included continued trade war tensions, ongoing monetary policy normalisation, political uncertainty in Europe and stretched market valuations. Meanwhile, there was little action on the domestic monetary policy front with the Reserve Bank leaving rates on hold once again. The accompanying statement also suggested no changes in the near-term, however more constructive comments on the labour market and GDP growth were two small alterations to the communication. This was echoed in the monthly employment figures that revealed a drop in the unemployment rate from 5.3% to 5.0%, a 6 year low. Third quarter inflation data was softer-than-anticipated with a 0.4% rise in the trimmed mean measure over the period. Other data points were more mixed with retail sales at a sluggish +0.2% and small increases in business and consumer confidence. On market movements, the Australian 3 and 10 year yields both fell 4bps to 2.04% and 2.64% respectively. At the very front-end, 90 day BBSW dropped 3bp to 1.91%.

Domestic credit posted a positive return for October, which was driven by a fall in underlying yields. The drop in yields was tied to a combination of several enduring concerns, rather than a specific catalyst. These included continued trade war tensions, ongoing monetary policy normalisation, political uncertainty in Europe and stretched market valuations.

Weaker risk appetite was also reflected in primary market activity during the month. It was the lightest October issuance since the GFC at only A$2.6bn. There were no debt capital raisings by the major banks. However, second-tier names Suncorp and Bendigo & Adelaide Bank tapped the market for A$500m each. Infrastructure issuers Heathrow and Port of Melbourne also completed deals for A$175m and A$550m respectively.

The Australian iTraxx index (Series 30 contract) traded in a 10bp range finishing the month 7.5bps wider to +82bps. On average, physical credit spreads finished the month unchanged. Semi-government bonds were also unchanged to government bonds over the month.

Domestic equity markets, as measured by the S&P/ASX 300 Accumulation index, pulled back by -6.2% in October, making it the worst month since August 2015. The index was down by -10.3% from its August high at one point, before paring some of the losses. Both Resources (-6.5%) and Industrials (-6.1%) finished the month in the red. That said, whilst we have seen a valuation de-rating – the S&P/ASX 300 has fallen from 15.5x next-12-month (NTM) price/earnings (P/E) to around 14x – we have not seen earnings expectations shift materially.

Fund performance and activity

The Fund returned -0.73% (pre-fees) over the month, an underperformance of -0.86% versus the cash benchmark. The equity component was the largest detractor due to the correction for the Australian market. The losses were mitigated by the effective use of options to reduce the equity exposure to the minimum. The fall for the index and increase in volatility meant the option values increased significantly. These were subsequently sold at a gain with new options purchased as a means to maintain the overall equity exposure at the minimum. Losses in the equity component were also offset by the credit allocation, which gained on a fall in underlying swap rates and accruals also added to returns.

Outlook

The Reserve Bank releases their Statement on Monetary Policy in early November with their updated forecasts. Third quarter inflation was in line with the Reserve Banks estimate at 1.9%. However the unemployment rate printed 5% in October, a level the RBA did not expect to reach till late 2020. The trend now sits at 5.15% , lower than what they had expected. A tighter labour market may see them increase their inflation forecasts although any upward revision is likely to be only slight and would not indicate any near term monetary policy tightening.

The housing market continues to garner plenty of negative headlines. Whilst the headlines are dramatic the retracement in prices has largely been orderly. We do expect house prices to continue to fall gradually by another 5% in the year ahead. Building approvals are already falling, construction will fall in around 12 months and credit is slowing. However, this is more than being offset currently by non-residential construction an unless consumer spending gets hit hard GDP numbers will hold up.

What hasn't been receiving the headlines that it should is the iron price. Iron ore is Australia's main export and its price has risen by just under 30% over the past year. The Newcastle coal price has also performed strongly over this period. Normally stronger commodity prices would see the Australian dollar stronger and weigh on key services exports such as tourism and education. That is not the case at the moment with the Aussie dollar and the trade weighted index falling by around 8% and 5% respectively. Economic growth in Australia is healthy, it is only the benign inflation environment at the moment that is preventing the Reserve Bank from removing some monetary policy accommodation.

Our macro credit view remains neutral. Whilst we continue to be cautiously constructive on a fundamental basis, we acknowledge risks have risen due to increasing volatility across markets. This has been driven in part by firmer expectations for US rate normalisation and higher inflation. Geopolitical risks have also flared up in 2018 and markets appear less forgiving, as witnessed by the reaction to Italian political uncertainty in May, the rout in emerging markets and ongoing Sino-US trade tensions. The combination of enduring concerns over geopolitics and monetary normalisation weighed particularly heavily on risk assets during October.

Over the next year, it is expected there will be further cash rate increases in the US, as reinforced by the Fed in September. Additionally, the ECB has effectively halted asset purchases. Market price dislocations will occur should expectations of central bank actions and incoming data not align to market positioning.

Balancing these risks are solid corporate fundamentals and in turn we are constructive on investment grade credit. Balance sheets are generally strong and earnings are improving as evidenced by solid corporate earnings seasons in the US and Europe. Further, Australian domestic issuers have not increased balance sheet leverage over the past number of years. The major Australian banks have stronger capital ratios than previous years which should support domestic financial stability.

Domestically we expect the Australian economy to exhibit improving growth that has become more balanced in recent years. However, weak wage growth could continue to dampen overall domestic demand and housing appears to be softening. As such we continue to recommend a defensive approach with any overweights in operationally resilient sectors such as Utilities and Infrastructure that provide higher yield to index returns.

For more information please call **1800 813 886**,
contact your key account manager or visit **pendalgroup.com**

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